

AMENDED IN ASSEMBLY APRIL 17, 1997

CALIFORNIA LEGISLATURE—1997–98 REGULAR SESSION

**ASSEMBLY BILL**

**No. 1230**

**Introduced by Assembly Member Wright**

February 28, 1997

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~~An act to add Chapter 1.5 (commencing with Section 129360) to Part 6 of Division 107 of the Health and Safety Code, to amend Section 129010 of the Health and Safety Code, and to amend Section 14087.9665 of the Welfare and Institutions Code, relating to health.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 1230, as amended, R. Wright. Health: health care provider loans: Medi-Cal managed care.

Existing law provides that in regions designated by the State Department of Health Services, health care services to eligible beneficiaries shall be provided through no more than 2 prepaid health plans, as defined, that in most cases consist of a commercial prepaid plan and a local initiative, as defined. Existing law also establishes a health facility construction loan insurance program, administered by the Office of Statewide Health Planning and Development. Existing law, the California Health Facilities Financing Authority Act empowers the California Health Facilities Financing Authority to provide financing for eligible health facility projects.

~~This bill would require the Office of Statewide Health Planning and Development to establish a financing authority,~~

~~in conjunction with the California Health Facilities Financing Authority, to make short term loans to support projects that directly enhance the managed care competitiveness of private and nonprofit health care providers. It would require the funding for the loans to derive from the issuance of revenue bonds by the authority, subject to certain requirements. It would also require the Governor, the Senate, and the Assembly to appoint a 6-person Improvement Task Force to approve loan requests and oversee relationships with the California Health Facility Authority.~~

*Existing law authorizes the County of Los Angeles to establish a managed health care system and authorizes the board of supervisors of that county to establish a commission to operate a local initiative health plan or plans to implement a Medi-Cal managed care plan pursuant to a strategic plan.*

*This bill would authorize the commission to issue and sell bonds and other securities to finance locally organized or designated health plans contracting with the local initiative, if the commission has certified to the Office of Statewide Health Planning and Development that it has evaluated the health facility and concluded that a guarantee of a loan to the health facility would not result in an undue financial risk and would further the goals of the local initiative health plan.*

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 ~~SECTION 1. Chapter 1.5 (commencing with Section~~
- 2 *SECTION 1. The Legislature finds and declares all of*
- 3 *the following:*
- 4 *(a) One objective of the local initiatives is to preserve*
- 5 *and maintain access to traditional and safety net*
- 6 *providers of Medi-Cal services.*
- 7 *(b) Many traditional and safety net providers lack*
- 8 *either the administrative or facility capacity to enter into*
- 9 *contracts with local initiatives to participate in a provider*
- 10 *network.*

1 (c) Many traditional and safety net providers are  
2 without reasonable access to financing to expand their  
3 administrative capacity.

4 (d) It is in the public interest to provide these  
5 traditional and safety net providers with reasonable  
6 means of financing increased administrative and facility  
7 capabilities so that they can participate in local initiative  
8 networks.

9 SEC. 2. Section 129010 of the Health and Safety Code  
10 is amended to read:

11 129010. Unless the context otherwise requires, the  
12 definitions in this section govern the construction of this  
13 chapter and of Section 32127.2.

14 (a) “Bondholder” means the legal owner of a bond or  
15 other evidence of indebtedness issued by a political  
16 subdivision or a nonprofit corporation.

17 (b) “Borrower” means a political subdivision or  
18 nonprofit corporation that has secured or intends to  
19 secure a loan for the construction of a health facility.

20 (c) “Construction, improvement, or expansion” or  
21 “construction, improvement, and expansion” includes  
22 construction of new buildings, expansion, modernization,  
23 renovation, remodeling and alteration of existing  
24 buildings, acquisition of existing buildings or health  
25 facilities, and initial or additional equipping of any of  
26 these buildings.

27 In connection therewith, “construction, improvement,  
28 or expansion” or “construction, improvement, and  
29 expansion” includes the cost of construction or  
30 acquisition of all structures, including parking facilities,  
31 real or personal property, rights, rights-of-way, the cost of  
32 demolishing or removing any buildings or structures on  
33 land so acquired, including the cost of acquiring any land  
34 where the buildings or structures may be moved, the cost  
35 of all machinery and equipment, financing charges,  
36 interest (prior to, during and for a period after  
37 completion of the construction), provisions for working  
38 capital, reserves for principal and interest and for  
39 extensions, enlargements, additions, replacements,  
40 renovations and improvements, cost of engineering,

1 financial and legal services, plans, specifications, studies,  
2 surveys, estimates of cost and of revenues, administrative  
3 expenses, expenses necessary or incident to determining  
4 the feasibility or practicability of constructing or incident  
5 to the construction; or the financing of the construction  
6 or acquisition.

7 (d) “Commission” means the California Health Policy  
8 and Data Advisory Commission.

9 (e) “Debenture” means any form of written evidence  
10 of indebtedness issued by the State Treasurer pursuant to  
11 this chapter, as authorized by Section 4 of Article XVI of  
12 the California Constitution.

13 (f) “Fund” means the Health Facility Construction  
14 Loan Insurance Fund.

15 (g) (1) “Health facility” means any facility providing  
16 or designed to provide services for the acute,  
17 convalescent, and chronically ill and impaired, including,  
18 but not limited to, public health centers, community  
19 mental health centers, facilities for the developmentally  
20 disabled, nonprofit community care facilities that provide  
21 care, habilitation, rehabilitation or treatment to  
22 developmentally disabled persons, facilities for the  
23 treatment of chemical dependency, including a  
24 community care facility, licensed pursuant to Chapter 3  
25 (commencing with Section 1500) of Division 2, a clinic, as  
26 defined pursuant to Chapter 1 (commencing with  
27 Section 1200) of Division 2, an alcoholism recovery  
28 facility, defined pursuant to former Section 11834.11, and  
29 a structure located adjacent or attached to another type  
30 of health facility and that is used for storage of materials  
31 used in the treatment of chemical dependency, and  
32 general tuberculosis, mental, and other types of hospitals  
33 and related facilities, such as laboratories, outpatient  
34 departments, extended care, nurses’ home and training  
35 facilities, offices and central service facilities operated in  
36 connection with hospitals, diagnostic or treatment  
37 centers, extended care facilities, nursing homes, and  
38 rehabilitation facilities. “Health facility” also means an  
39 adult day health center and a multilevel facility. Except  
40 for facilities for the developmentally disabled, facilities

1 for the treatment of chemical dependency, or a  
2 multilevel facility, or as otherwise provided in this  
3 subdivision, “health facility” does not include any  
4 institution furnishing primarily domiciliary care.

5 ~~“Health~~

6 (2) “*Health* facility” also means accredited nonprofit  
7 work activity programs as defined in subdivision (e) of  
8 Section 19352 and Section 19355 of the Welfare and  
9 Institutions Code, and nonprofit community care  
10 facilities as defined in Section 1502, excluding foster  
11 family homes, foster family agencies, adoption agencies,  
12 and residential care facilities for the elderly.

13 ~~Unless~~

14 (3) “*Health* facility” *also means any traditional or*  
15 *safety net provider with a contract with a local initiative,*  
16 *as defined in subdivision (u).*

17 (4) ~~Unless~~ the context dictates otherwise, “health  
18 facility” includes a political subdivision of the state or  
19 nonprofit corporation that operates a facility included  
20 within the definition set forth in this subdivision.

21 (h) “Office” means the Office of Statewide Health  
22 Planning and Development.

23 (i) “Lender” means the provider of a loan and its  
24 successors and assigns.

25 (j) “Loan” means money or credit advanced for the  
26 costs of construction or expansion of the health facility,  
27 and includes both initial loans and loans secured upon  
28 refinancing and may include both interim, or short-term  
29 loans, and long-term loans. A duly authorized bond or  
30 bond issue, or an installment sale agreement, may  
31 constitute a “loan.”

32 (k) “Maturity date” means the date that the loan  
33 indebtedness would be extinguished if paid in accordance  
34 with periodic payments provided for by the terms of the  
35 loan.

36 (l) “Mortgage” means a first mortgage on real estate.  
37 “Mortgage” includes a first deed of trust.

38 (m) “Mortgagee” includes a lender whose loan is  
39 secured by a mortgage. “Mortgagee” includes a  
40 beneficiary of a deed of trust.

1 (n) “Mortgagor” includes a borrower, a loan to whom  
2 is secured by a mortgage, and the trustor of a deed of  
3 trust.

4 (o) “Nonprofit corporation” means any corporation  
5 formed under or subject to the Nonprofit Public Benefit  
6 Corporation Law (Part 2 (commencing with Section  
7 5110) of Division 2 of Title 1 of the Corporations Code)  
8 that is organized for the purpose of owning and operating  
9 a health facility and that also meets the requirements of  
10 Section 501(c)(3) of the Internal Revenue Code.

11 (p) “Political subdivision” means any city, county,  
12 joint powers entity, local hospital district, or the  
13 California Health Facilities Authority.

14 (q) “Project property” means the real property where  
15 the health facility is, or is to be, constructed, improved, or  
16 expanded, and also means the health facility and the  
17 initial equipment in that health facility.

18 (r) “Public health facility” means any health facility  
19 that is or will be constructed for and operated and  
20 maintained by any city, county, or local hospital district.

21 (s) “Adult day health center” means a facility defined  
22 under subdivision (b) of Section 1570.7, that provides  
23 adult day health care, as defined under subdivision (a) of  
24 Section 1570.7.

25 (t) “Multilevel facility” means an institutional  
26 arrangement where a residential facility for the elderly is  
27 operated as a part of, or in conjunction with, an  
28 intermediate care facility, a skilled nursing facility, or a  
29 general acute care hospital. “Elderly,” for the purposes of  
30 this subdivision, means a person 62 years of age or older.

31 (u) (1) *“Local initiative” means any of the following*  
32 *that has been awarded a contract by the State*  
33 *Department of Health Services under paragraph (2) of*  
34 *subdivision (b) of Section 53800 of the California Code of*  
35 *Regulations:*

36 (A) *A prepaid health plan that is organized by a*  
37 *county or by county governments of a region designated*  
38 *by the Director of Health Services or organized by*  
39 *stakeholders of the designated region.*

1 (B) A prepaid health plan that has been designated by  
2 a county or by stakeholders of a designated region and  
3 approved by the Director of Health Services.

4 (2) “Designated region” and “region designated by  
5 the Director of Health Services” means that geographic  
6 area designated the Director of Health Services within  
7 which a plan is approved by the State Department of  
8 Health Services to provide services to Medi-Cal  
9 beneficiaries pursuant to a contract authorized by Section  
10 14087.3.

11 (v) “Safety net provider” means any provider of  
12 comprehensive primary care or acute hospital inpatient  
13 services that provides these services to a significant  
14 number of Medi-Cal patients and charity or medically  
15 indigent patients, or both, in relation to the total number  
16 of patients served by the provider.

17 (w) “Traditional provider” means any physician who  
18 has delivered services to Medi-Cal beneficiaries within  
19 the last six months.

20 SEC. 3. Section 14087.9665 of the Welfare and  
21 Institutions Code is amended to read:

22 14087.9665. (a) The commission may borrow or  
23 receive funds from any person or entity as necessary to  
24 cover development costs and other actual or projected  
25 obligations of the local initiative.

26 (b) The county may lend funds to the commission  
27 upon such terms as the board of supervisors may establish.

28 (c) The commission may issue and sell bonds and other  
29 securities to finance health facilities as defined in  
30 paragraph (3) of subdivision (g) of Section 129010 of the  
31 Health and Safety Code and the local initiative has  
32 certified to the Office of Statewide Health Planning and  
33 Development that it has evaluated the health facility and  
34 concluded that, based upon a review of its operating  
35 history and its competitive role in the local market, the  
36 guarantee of a loan to the health facility would not result  
37 in an undue financial risk and would further the goals of  
38 the local initiative.

39 (d) Notwithstanding any other provision of law, both  
40 the county and the commission shall be eligible to receive

1 funding under subdivision (p) of Section 14163, and the  
2 local initiative shall be considered for all purposes to  
3 satisfy the requirements of subdivision (p) of Section  
4 14163.

5 ~~129360) is added to Part 6 of Division 107 of the Health~~  
6 ~~and Safety Code, to read:~~

7  
8 CHAPTER 1.5. ~~HEALTH CARE PROVIDER LOANS:~~  
9 ~~MEDI-CAL MANAGED CARE~~

10  
11 ~~129360. (a) The Legislature finds and declares all of~~  
12 ~~the following:~~

13 ~~(1) A key objective of local initiatives, as defined in~~  
14 ~~subdivision (s) of Section 53810 of Title 22 of the~~  
15 ~~California Code of Regulations, operated pursuant to the~~  
16 ~~Medi-Cal program, is to preserve access to care within the~~  
17 ~~two-plan model for Medi-Cal beneficiaries with an~~  
18 ~~emphasis on a network of safety net and traditional~~  
19 ~~providers of Medi-Cal services.~~

20 ~~(2) The commercial plan options in the two-plan~~  
21 ~~model selectively contract with safety net and traditional~~  
22 ~~providers, but the local initiatives are mandated to~~  
23 ~~contract, or ensure appropriate subcontracts, with these~~  
24 ~~providers.~~

25 ~~(3) Many providers have neither the administrative~~  
26 ~~nor facility capacity to enter into managed care contracts~~  
27 ~~with either private or public sector health care service~~  
28 ~~plans and require financing to have this capacity.~~

29 ~~(4) Smaller nonprofit clinics and for-profit physician~~  
30 ~~groups currently have insufficient access to finance~~  
31 ~~capacity building projects through local financing~~  
32 ~~institutions or established public financing programs.~~

33 ~~(5) The California Health Facilities Financing~~  
34 ~~Authority through the California Health Facilities~~  
35 ~~Financing Authority Act (Part 7.2 (commencing with~~  
36 ~~Section 15430) of Title 2 of the Government Code) issues~~  
37 ~~revenue bonds to provide financing for eligible nonprofit~~  
38 ~~health care facilities at a lower than commercial market~~  
39 ~~rate with appropriate state financial guarantees.~~

1 ~~(6) Certain local initiatives, in conjunction with their~~  
2 ~~respective counties, have a strong incentive to improve~~  
3 ~~the stability of their networks of safety net and traditional~~  
4 ~~providers by improving their capacity to engage in~~  
5 ~~managed care contracting.~~

6 ~~(b) The Office of Statewide Health Planning and~~  
7 ~~Development shall establish a financing authority in~~  
8 ~~conjunction with the California Health Facility Authority~~  
9 ~~to make short term, modest loans to support projects that~~  
10 ~~directly enhance the managed care competitiveness of~~  
11 ~~both private and nonprofit providers. The funds for these~~  
12 ~~loans shall be derived from revenue bonds issued through~~  
13 ~~the authority, as needed. The revenue bonds shall be~~  
14 ~~issued in accordance with the procedures set forth in Part~~  
15 ~~7.2 (commencing with Section 15430) of Title 2 of the~~  
16 ~~Government Code.~~

17 ~~(c) The loans shall be no more than two hundred fifty~~  
18 ~~thousand dollars (\$250,000) per project for a duration of~~  
19 ~~no more than five years. The authority shall be~~  
20 ~~established as an adjunct to the Cal Mortgage Loan~~  
21 ~~Insurance Program with requests channeled through an~~  
22 ~~initial review by the local initiative.~~

23 ~~(d) The funds for the loans provided by the authority~~  
24 ~~shall not exceed 10 million dollars (\$10,000,000) per year.~~

25 ~~(e) The bond security for the program shall be~~  
26 ~~provided solely through the California Health Facilities~~  
27 ~~Financing Authority for the first two years, and jointly~~  
28 ~~with the local initiatives, through their capitation~~  
29 ~~revenue money, thereafter.~~

30 ~~(f) A six-person Improvement Task Force shall be~~  
31 ~~appointed to approve loan requests and oversee~~  
32 ~~relationships with the authority. The Governor, the~~  
33 ~~Senate, and the Assembly shall each appoint two persons~~  
34 ~~to the Improvement Task Force.~~